

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 CEA-01 AGR-05

AGRE-00 /094 W

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R 241936Z SEP 76

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 7279

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E.O. 11652: N/A

TAGS: EGEN, EFIN, ELAB, AR

SUBJECT: MAJOR SPEECH ON ARGENTINE ECONOMY BY MINISTER MARTINEZ

DE HOZ

REF: BUENOS AIRES 6292

1. AS SEEKS CHARACTERISTIC OF THE ARGENTINE, REACTION  
TO MINISTER MARTINEZ DE HOZ'S SPEECH (REFTEL) ON THE  
ECONOMY WAS QUITE DIVERSE. THE ONLY COMMON GROUND SEEKS  
TO BE GENERAL AGREEMENT THAT COST OF LIVING INCREASES  
WILL REMAIN HIGH (6-10 PERCENT PER MONTH) THROUGHOUT  
THE REST OF THE YEAR AND THAT THE GOA WILL HAVE TO PER-  
MIT AT LEAST ONE WAGE ADJUSTMENT DURING THE PERIOD  
TO MAINTAIN REAL WAGES AT THE MAY-JUNE LEVEL. THE  
RISE IN INTEREST RATES FOR TIME DEPOSITS AND SHARP  
JUMP IN PRICES OF NATIONAL ADJUSTABLE BONDS (ADJUSTED  
FOR INFLATION) THE DAY FOLLOWING THE SPEECH APPEARED  
TO CONFIRM THIS GENERAL EXPECTATION.

2. TO HIS SUPPORTERS, THE SPEECH WAS EVIDENCE THAT THE

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MINISTER HAD THE FULL SUPPORT OF THE JUNTA TO CARRY

OUT HIS PROGRAM AND THAT THE GOVERNMENT WOULD BE  
ABLE TO KEEP INFLATIONARY PRESSURES UNDER CONTROL  
(6-10 PERCENT PER MONTH INFLATION IS CONSIDERED  
"NORMAL" IN ARGENTINE CONTEXT).

3. TO HIS CRITICS, THE SPEECH WAS A SIGN OF THE  
CURRENT WEAKNESS OF THE ECONOMIC PROGRAM AND THAT,  
DESPITE THE HUGE SOCIAL COST, THE STABILIZATION  
EFFORTS WOULD IN THE END FAIL. THEY ALSO TOOK ISSUE  
WITH SPECIFIC POINTS MADE IN THE SPEECH. INSTEAD OF  
A POSITIVE DEVELOPMENT, SOME ATTRIBUTE THE CURRENT  
SIGNS OF RECOVERY OF PRODUCTION AND INCREASE IN  
IMPORTS TO A RETURN OF INFLATION-INDUCED SPECULATIVE  
BEHAVIOR -- I.E., BUILD UP OF INVENTORIES AS A HEDGE  
AGAINST INFLATION. THEY ALSO GREETED AS A HUMOROUS,  
SEMANTICAL PLAY ON WORDS THE MINISTER'S ASSERTION THAT  
RECENT INCREASES IN PRICE INDEXES WERE "READJUSTMENTS"  
RATHER THAN AN UPWARD INFLATIONARY SPIRAL. PRICES  
WERE INCREASING WHATEVER THE TECHNICAL REASON. ONE  
CRITIC QUESTIONED THE LEGITIMACY OF USING 1960 AS A  
BASE OF COMPARISON (WHY NOT ANOTHER YEAR?) AND POINTED OUT  
THAT THE MINISTER HAD FAILED TO MENTION THAT  
CURRENT REAL WAGES WERE ALSO BELOW THOSE PREVAILING  
IN 1960 AND JUSTIFIED A "READJUSTMENT." THE SAME  
CRITIC REFUTED THE MINISTER'S CLAIM REGARDING UNEMPLOYMENT,  
CIRITNG A RECENT PRIVATE STUDY THAT THE CURRENT UNEMPLOYMENT  
LEVEL IS 8.8 PERCENT -- A RATE JUST AS HIGH AS THAT EXPERIENCED  
IN THE U.S. WHICH DOES NOT EVEN TAKE INTO ACCOUNT THE  
HIGH DEGREE OF UNDEREMPLOYMENT.

4. COMMENT: WE SHARE VIEWPOINT THAT THE MINISTER'S  
SPEECH IS AN INDICATION THAT HE CONTINUES TO ENJOY  
THE CONFIDENCE OF PRESIDENT VIDELA. PRESSURES HAVE  
BEEN BUILDING UP, HOWEVER, AND THERE ARE REPORTS  
THAT SOME MILITARY HAVE BEEN ADVOCATING GREATER  
SALARY RAISES IN THE FACE OF THE INCREASING RATE OF  
INFLATION (ABOUT 10 PERCENT IN SEPTEMBER). THE  
MEASURES ANNOUNCED TO DAMPEN MEAT PRICE INCREASES  
AND THE PROSPECT OF MORE INTENSE JAWBONING EFFORTS  
WILL PROBABLY NOT REDUCE THE RATE INFLATION SIGNIFICANTLY  
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BUT MAY SUCCEED IN PREVENTING AN UNMANAGEABLE UPWARD  
SPIRAL FROM DEVELOPING. OTHERWISE, AS THE MINISTER  
INDICATED, ALL GAINS TO DATE MAY BE LOST.

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## Message Attributes

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